# Chartered Market Technician (CMT) Practice Exam (Sample)

## Study Guide

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# Questions

1. **What does extreme pessimism in sentiment indicators imply about liquidity?**
   - A. A Low liquidity
   - B. B Moderate liquidity
   - C. C High liquidity
   - D. D Decreasing liquidity

2. **In the Capital Asset Pricing Model (CAPM) equation, what is the key variable?**
   - A. Alpha
   - B. Risk-free rate
   - C. Beta
   - D. Market return

3. **Which of the following is known as a reversal pattern that occurs after an uptrend?**
   - A. Dark Cloud Cover
   - B. Common Gap
   - C. Evening Star
   - D. Exhaustion Gap

4. **The mosaic theory suggests that an analyst can use which types of information in their analysis?**
   - A. Only public information
   - B. Only nonpublic information
   - C. Both material public and nonmaterial nonpublic information
   - D. Only material nonpublic information

5. **What is a term used to describe a sideways, three-wave corrective pattern in technical analysis?**
   - A. Flat
   - B. Triangle
   - C. Wedge
   - D. Flag

**6. How are liquidity and psychology related in a market context?**

**A. Liquidity and psychology are directly related**

**B. Liquidity and psychology are inversely related**

**C. Liquidity has no impact on psychology**

**D. Liquidity dictates psychology exclusively**

**7. What does momentum measure in a financial context?**

**A. The speed of market transactions**

**B. The rate of change in price**

**C. The volume of trades made**

**D. The volatility of asset prices**

**8. During the first year of the presidential cycle, what is generally expected regarding stock market gains?**

**A. Largest gain**

**B. Second largest gain**

**C. Smallest gain**

**D. No significant change**

**9. Which of the following is an example of a value-weighted index?**

**A. Dow Jones Industrial Average**

**B. Russell 2000**

**C. NYSE Composite**

**D. Wilshire 5000**

**10. Which pattern arises from a larger body engulfing a previous smaller body during a bearish trend?**

**A. Bullish Engulfing**

**B. Bearish Engulfing**

**C. Evening Star**

**D. Doji**

# Answers

1. **C**
2. **C**
3. **C**
4. **C**
5. **A**
6. **B**
7. **B**
8. **C**
9. **B**
10. **B**

# Explanations

## 1. What does extreme pessimism in sentiment indicators imply about liquidity?

**A. A Low liquidity**

**B. B Moderate liquidity**

**C. C High liquidity**

**D. D Decreasing liquidity**

**Extreme pessimism in sentiment indicators generally implies high liquidity in the market. When investors exhibit a high level of fear or negativity about the market's prospects, they tend to sell off assets, leading to increased selling activity. This selling pressure can often result in a spike in liquidity as more market participants are looking to offload positions quickly. Moreover, extreme pessimism can create opportunities for contrarian investors who believe that the market is oversold. They may step in to buy when prices are low, contributing to further liquidity. In such conditions, there is often an influx of cash as more traders and investors are willing to enter the market, taking advantage of perceived undervaluation. This relationship between sentiment indicators and liquidity reflects the dynamics of fear and opportunity in investor behavior, where extreme negative sentiment can prompt heightened activity in the markets and facilitate liquidity.**

## 2. In the Capital Asset Pricing Model (CAPM) equation, what is the key variable?

**A. Alpha**

**B. Risk-free rate**

**C. Beta**

**D. Market return**

**In the Capital Asset Pricing Model (CAPM), beta is the key variable as it measures the sensitivity of an asset's returns relative to the overall market's returns. This parameter reflects the systematic risk associated with the asset, indicating how much the asset's price is expected to move in relation to market movements. A beta of 1 suggests that the asset's price movements are in line with the market, while a beta greater than 1 indicates higher volatility than the market, and a beta less than 1 indicates lower volatility. Understanding beta is crucial for investors as it helps them assess the risk of an investment in the context of market fluctuations. By incorporating beta into the CAPM equation, investors can estimate the expected return of an asset based on its exposure to market risk, thereby informing their investment decisions. This relationship underscores the importance of beta in the CAPM framework, making it a cornerstone for evaluating expected investment performance in relation to risk.**

## 3. Which of the following is known as a reversal pattern that occurs after an uptrend?

**A. Dark Cloud Cover**

**B. Common Gap**

**C. Evening Star**

**D. Exhaustion Gap**

**A reversal pattern that occurs after an uptrend signals a change in the prevailing trend. The Evening Star is a well-recognized candlestick pattern that fits this description. It typically consists of three candles: a strong bullish candle, followed by a smaller body (which may be bullish or bearish), and then a bearish candle that closes below the midpoint of the first candle. This progression indicates a potential reversal of bullish sentiment, suggesting that the market is shifting from an uptrend to a downtrend. While Dark Cloud Cover is also a bearish reversal pattern, it occurs over the course of two candlesticks, and it generally appears during an uptrend but has a slightly different structure than the Evening Star. The Common Gap and Exhaustion Gap do not inherently involve a specific candlestick formation that indicates reversal; rather, they are patterns related to price movement and volume, typically highlighting either consolidation or the potential end of a trend. Therefore, the Evening Star is recognized specifically for signaling a bearish reversal after an uptrend, making it the correct identification in this context.**

## 4. The mosaic theory suggests that an analyst can use which types of information in their analysis?

**A. Only public information**

**B. Only nonpublic information**

**C. Both material public and nonmaterial nonpublic information**

**D. Only material nonpublic information**

**The mosaic theory posits that analysts can build a comprehensive view of a company's prospects by integrating various types of information, both public and nonpublic. The correct choice reflects this holistic approach, which holds that analysts can utilize both material public information—such as financial reports, analyst presentations, and press releases—and nonmaterial nonpublic information, which may include insights gathered from industry contacts or observations that do not constitute material nonpublic information. By blending these different types of information, analysts are able to create a "mosaic" that provides a more informed perspective than either type of information could yield alone. This concept is crucial in the field of investment analysis, as it reinforces the importance of considering the broader context and varied sources of knowledge when evaluating a security. In contrast, the other options limit the scope of information to either only public or only specific types of nonpublic information, which would restrict an analyst's ability to gather a complete picture of the market or a specific company. By allowing the integration of various informational elements, the mosaic theory enhances the analytical process and supports more nuanced investment decisions.**

## 5. What is a term used to describe a sideways, three-wave corrective pattern in technical analysis?

**A. Flat**

**B. Triangle**

**C. Wedge**

**D. Flag**

**The term "Flat" refers to a specific type of corrective pattern in technical analysis characterized by a sideways movement that typically consists of three waves. In a flat pattern, the first wave and the third wave are generally equal in length, and the second wave retraces a portion of the first wave. This results in a structure that is somewhat horizontal and indicates a period of consolidation in the market. The flat pattern is significant because it often suggests indecision among market participants, with buying and selling pressure being relatively balanced. This three-wave structure distinguishes it from other corrective patterns, as it specifically embodies a sideways arrangement, setting it apart in the analysis of price movements. Different terms describe other patterns, such as triangles, which consist of converging trendlines and show a more complex interplay of price movements, or wedges, which can indicate potential reversals but do not fit the three-wave criteria. Flags are short-term continuation patterns that usually occur after a strong movement in price and involve two parallel trendlines, also differing from the flat's sideways movement and structure.**

## 6. How are liquidity and psychology related in a market context?

**A. Liquidity and psychology are directly related**

**B. Liquidity and psychology are inversely related**

**C. Liquidity has no impact on psychology**

**D. Liquidity dictates psychology exclusively**

**The relationship between liquidity and psychology in a market context is complex but can often be seen as inversely related. When liquidity is high, markets tend to have a larger volume of trades executed at stable prices, which can instill a sense of confidence among investors. In such environments, the psychological impact of potential losses is usually mitigated, leading to a more optimistic market sentiment. Conversely, when liquidity is low, price fluctuations tend to be more pronounced and can occur with less volume. This situation can heighten psychological discomfort, as investors may fear that increased volatility will lead to larger losses. In this way, as liquidity decreases, psychological stress on investors tends to increase, creating a scenario where fear can lead to further market downturns. Understanding this relationship helps traders and analysts navigate market dynamics. High liquidity promotes a stable psychological environment, while low liquidity can exacerbate negative psychological trends, leading to panic selling or irrational decision-making. Thus, the dynamics between liquidity and market psychology are indeed inverse, revealing how shifts in liquidity can significantly influence investor sentiment and market behavior.**

## 7. What does momentum measure in a financial context?

A. The speed of market transactions

B. The rate of change in price

C. The volume of trades made

D. The volatility of asset prices

**Momentum in a financial context specifically measures the rate of change in price over time. It reflects how quickly the price of a security or asset is moving in a particular direction, indicating the strength of price movement. When prices increase rapidly, this indicates strong bullish momentum, while a rapid decrease suggests strong bearish momentum. Understanding momentum is crucial for traders and analysts as it provides insights into potential future price movements. A rising momentum can signal continuation of trends, while falling momentum may indicate a potential reversal or loss of trend strength. This makes momentum a vital concept in technical analysis, where traders look for patterns and signals based on past price actions to inform their investment decisions. The other options relate to different aspects of market behavior, such as transaction speed, trade volume, and price volatility, which do not directly address the concept of momentum in the same way.**

## 8. During the first year of the presidential cycle, what is generally expected regarding stock market gains?

A. Largest gain

B. Second largest gain

C. Smallest gain

D. No significant change

**The first year of the presidential cycle is often characterized by a tendency for lower stock market gains compared to other years in the cycle. Historically, this period can be influenced by uncertainty and a lack of strong policy direction following an election. Newly elected presidents may take time to implement their agendas, leading to a cautious investment environment. Moreover, during this initial year, the focus tends to be on setting priorities and possibly facing legislative hurdles, which can contribute to stock market volatility or subdued performance. Investors may be hesitant to commit funds until there's more clarity on the economic policies and direction of the government. This phenomenon is reflected in historical data that shows that the first year often has the smallest average gains in the broader context of the four-year presidential cycle. Therefore, the expectation of smaller gains during this year aligns with established market behaviors related to sociopolitical factors affecting investor confidence.**

## 9. Which of the following is an example of a value-weighted index?

A. Dow Jones Industrial Average

B. Russell 2000

C. NYSE Composite

D. Wilshire 5000

**The Russell 2000 is considered a value-weighted index because it is constructed based on the market capitalization of the companies included in the index. In a value-weighted index, also known as a market-capitalization-weighted index, larger companies have a greater impact on the index's overall value than smaller companies. This means that the index reflects changes in the value of the larger companies more than those of smaller ones.  The Russell 2000 specifically tracks the performance of the 2000 smallest stocks in the Russell 3000 Index, which represents a broad spectrum of the U.S. equity market. Its value-weighting approach means that changes in the stock prices of larger capitalization companies will have a more pronounced effect on the Russell 2000's movement compared to smaller companies.  In contrast, other indices mentioned utilize different weighting methodologies. For instance, the Dow Jones Industrial Average is price-weighted, where the index value is influenced by the stock prices of its components rather than their market capitalizations. The NYSE Composite consists of all common stocks listed on the NYSE and is also not strictly a value-weighted index, and the Wilshire 5000 is a broad index of U.S. stocks but encompasses multiple weighting schemes, primarily focusing**

## 10. Which pattern arises from a larger body engulfing a previous smaller body during a bearish trend?

A. Bullish Engulfing

B. Bearish Engulfing

C. Evening Star

D. Doji

**The correct answer is associated with a pattern that clearly illustrates a reversal in a bearish trend, characterized by a larger body candle completely engulfing a smaller previous candle. This pattern indicates that sellers are losing control, as the larger candle reflects stronger bearish momentum that ultimately overcomes the previous bullish sentiment represented by the smaller body.   In the context of a bearish engulfing pattern, this typically occurs after a downtrend, reinforcing the idea that the momentum is shifting. As the larger bearish candle engulfs the smaller bullish candle, it signals potential for further price declines, often serving as confirmation for traders looking for short positions or setting stop-loss levels based on the trend reversal. Understanding this pattern is crucial for technical analysts, as it represents both the psychology of market participants and potential trading opportunities.  The other patterns mentioned, such as the bullish engulfing, evening star, and doji, serve different functions and indicate various market conditions or signals. For instance, the bullish engulfing suggests a momentum shift from bearish to bullish, while the evening star signifies a reversal after an uptrend, and the doji represents market indecision. Each is valuable in its own context but does not reflect the specific scenario of a larger body engulfing a smaller body during a bearish trend**